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SUBJECT: Last Belgian Budget Check Before Elections - Much
Ado About Nothing

Ref: (A) 06 BRUSSELS 3715 (B) BRUSSELS 843

11. (U) Summary. The much-heralded special Council of Ministers retreat in Leuven yielded little more than a cursory budget scrubbing and a few symbolic initiatives designed to garner votes in the June 10 elections. The earlier-agreed "green" revenue enhancement measure to tax packaging was downgraded to a tax on plastic bags and single-use food containers, and the 320 million Euro projected hole in the budget is to be filled by a litany of other environmentally-oriented taxes and more aggressive anti-fraud measures. Tax breaks for patents, environmentally friendly cars and kitchen goods, as well as a small increase in state subsidy for single parents, were offered. Tighter controls and enforcement were promised on money laundering and gambling. The budget also contains funding for Belairbus, the consortium of Belgian subcontractors to Airbus. End Summary.

12. (U) Despite high Belgian public and press anticipation, a three-day special Council of Ministers retreat in Leuven fell short of expectations. The main result was to engineer the seventh budget surplus in a row for the Verhofstadt government. While the Belgian National Bank has predicted a higher budget surplus figure, the government based its actions on a conservative estimate of 2.2 percent GDP growth.

Recovering packaging tax revenue

13. (U) The 2007 budget proposed last Fall anticipated implementation of a packaging tax scheme that would have heavily taxed packaging materials according to their environmental cost to produce, beginning in July 2007 (after the elections). It was expected to produce 320 million Euros in revenue, but was judged unworkably complex by the Finance Ministry. In order to close this revenue gap, the Council of Ministers agreed in Leuven on a series of taxes on other disposable goods. These taxes, to be implemented in April 2007, include taxes of 3 Euros per kilo on plastic bags, 2.7 Euros per kilo on plastic foil, 4.5 Euros per kilo on household aluminum foil, and 3.6 Euros per kilo on disposable plates and cutlery. Together, these "green taxes" are expected to garner 67 million Euros of revenue. Cars will also be taxed at the time of purchase, both as company cars and privately owned, according to their CO2 emissions, with diesel cars taxes at the highest rate. This car tax is expected to generate 65 million Euros for the 2007 budget.

¶4. (U) Additional resources to keep the budget out of the red are to be found by fighting fiscal fraud, according to the Finance Ministry tax department. These include 37 million Euros to be gained from anti-money-laundering operations, 30 million from cracking down on gambling and gaming activities in Belgium, 10 million from debt collection, 10 million from tighter controls on management agencies that forward taxes owed by clients, 11 million from new regulations such as a French-Belgian cross-border workers accord, and 7 million from other tax and social program fraud-fighting measures. In sum, 105 million Euros are expected from this anti-fraud program.

Help to Airbus contractors, families, and inventors

¶5. (U) Having assured itself of the needed revenue, the coalition government yielded to some vote-attracting symbolic spending, under particular pressure from Socialist members of the governing coalition. The Leuven Ministers' meeting passed numerous increases in social spending that benefit single parent households as well as those in poverty seeking legal assistance. Single parent families will receive a 20 Euro a month per child supplement payment, which will benefit 62,000 children. There will also be an increase of paid maternity leave for unwed mothers. To create urgently needed social housing facilities, the Ministers allocated an additional two million Euros.

¶6. (U) Allocations were also made for Economic Minister Marc Verwilghen to invest in nuclear fusion research (Belgium's contribution to the ITER project), and 150 million Euros to fund support for Belgian suppliers to the Airbus A350 XWB development (Ref b). Ministers also agreed

to reduce taxes on royalties paid on patents obtained in Belgium, lowering them from 34 percent to 6.8 percent, a move to stimulate investment in research and technology innovation in the country.

Elections on the Horizon

¶7. (SBU) The Leuven conclave took place against an unavoidable backdrop ? the upcoming June 10 elections. With the elections in mind, the coalition had two major goals: not imposing any obvious taxes in the immediate run up to voting day, and finding a way to bathe their "purple" coalition in green, burnishing its environmental credentials to draw green voters. In addition, the Prime Minister wanted to demonstrate that the Liberal and Socialist members of his team were continuing to work together, thereby showing that they could do so if re-elected to another term. The immediate press comment on the gathering suggests he was only moderately successful. Since the meeting took place, Vice Prime Minister and Finance Minister Reynders, a francophone Liberal, has gone out of his way to deny plans to raise new revenue, while his Socialist counterpart, Vice Prime Minister and Justice Minister Onkelinx, has publicly taken a shot at the Prime Minister for being too much the advocate during cabinet discussions, and too little the neutral chairman. With his Flemish Liberal Party (VLD) at its lowest ebb (16 percent) since he was chosen as Prime Minister for a second term in 2003, Verhofstadt is in for a difficult election campaign.

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